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REPORT TO THE UNITED NATIONS BOARD OF AUDITORS AND THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS

SUMMARY

The present document reports on the steps taken or to be taken in response to the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1994-1995. It also presents the follow-up actions that were taken in response to specific recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1992-1993.

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* E/ICEF/1996/18.

I. INTRODUCTION

1. As an ongoing practice, UNICEF has been submitting a report to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, to advise the Assembly as to the measures that the organization will take to implement the recommendations of the United Nations Board of Auditors.

2. The present report reviews the implementation by UNICEF of the recommendations of the Board of Auditors in its report on the UNICEF accounts for the biennium 1994-1995. The report also discusses the status of the implementation of the recommendations of the Board of Auditors on the accounts for the biennium 1992-1993.

3. The present document is submitted to the Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions for their evaluation.

II. PROGRESS REPORT ON SPECIFIC STEPS TAKEN TO IMPLEMENT THE RECOMMENDATIONS OF THE BOARD OF AUDITORS ON THE UNICEF ACCOUNTS FOR THE BIENNIUM 1994-1995

4. This chapter describes the steps taken or to be taken by UNICEF in response to the recommendations of the Board of Auditors on its accounts for the biennium 1994-1995.

Recommendation No. 1

5. The policy of recording cash assistance to Governments as programme expenditure at the time the funds are advanced should be reviewed for consistency with the definition of programme expenditure in UNICEF financial regulations and programme management procedures.

Measures taken by UNICEF

6. The Comptroller, the Director of Programme Division, the Director of the Office of Internal Audit and the Deputy Director of Accounts have started discussions on the subject and further meetings will be held to ensure thorough understanding of all aspects of the issue. The results of these discussions will be shared with the Board of Auditors during its next audits.

Recommendation No. 2

7. UNICEF should establish a reserve for its doubtful contributions receivable to ensure an accurate disclosure of its realizable assets.

Measures taken by UNICEF

8. The secretariat will, once more, review the recommendation of the Board of Auditors in the light of the status of long-outstanding receivables in the biennium 1996-1997. If warranted, the necessary steps to ensure that the organization's assets are presented at their realizable value will be taken before the end of the present biennium.

Recommendation No. 3

9. The declining liquidity of UNICEF suggests the need for a reversal of the deliberate strategy of setting expenditure levels higher than income.

Measures taken by UNICEF

10. The secretariat will review regularly the liquidity position of UNICEF to ensure availability of resources to meet commitments as they fall due. Further, the secretariat will continue to monitor regularly expenditure levels so that appropriate action can be taken as may be required.

Recommendation No. 4

11. Headquarters should strengthen its monitoring of the operation of internal control systems in field offices through prompt and effective investigation of indications of mismanagement.

Measures taken by UNICEF

12. The secretariat has taken a number of steps to address the concern:

(a) To increase senior staff members' awareness and understanding of financial accountability, training sessions are being held with the participation of country office representatives. These sessions include discussions on financial management, accountability and internal controls, as well as the respective roles of staff in these matters;

(b) Where there are indications of mismanagement in internal audit reports, these are highlighted in the Internal Audit Committee's meetings for the necessary follow-up;

(c) Any indications of mismanagement are investigated either by the office itself, the regional office or the Office of Internal Audit, as appropriate.

Recommendation No. 5

13. Responsiveness to internal audit findings and recommendations may be further improved as follows:

(a) The Internal Audit Committee should promptly evaluate and resolve any disagreements over audit findings and establish a time frame for the implementation of their recommendations;

(b) Regional Directors' reports on the implementation of internal audit recommendations should be presented in a uniform format and be monitored at headquarters by a designated officer.

Measures taken by UNICEF

14. The secretariat is now monitoring the implementation of internal audit recommendations in a more systematic and structured manner. The audited office, and offices other than the one subject to the audit but which also may be

required to take action on the recommendations, must provide updates on the status of the recommendations. The Office of Internal Audit then assesses the updates and provides the necessary feedback to the offices concerned. The process is completed only when implementation is deemed to be at a satisfactory level.

Recommendation No. 6

15. UNICEF should improve further the accuracy of its income projections for unfunded supplementary programmes through more realistic budgeting and fund-raising strategies.

Measures taken by UNICEF

16. The medium-term plan's income projections are the result of extensive interactions between the donor community and UNICEF. Since 1990, the average variance between planned and actual income has been -4 per cent for general resources and +12 per cent for supplementary funds. In 1995, the variances were -11 per cent for general resources and +7 per cent for supplementary funds. While there is a growing level of uncertainty in the current funding environment, the secretariat agrees that increased accuracy is desirable and will continue to strive towards this end.

Recommendation No. 7

17. The procedures for allocating general resources to country programmes should be reviewed to enhance comparability of data, eligibility for assistance and the determination of cut-off and exit criteria.

Measures taken by UNICEF

18. The secretariat is reviewing the criteria and procedures for the allocation of general resources to country programmes and a discussion paper will be submitted to the Executive Board at its third regular session of 1996. The paper suggests maintaining the three core criteria that currently are used, i.e., child population, per capita gross national product and under-five mortality rate, and proposes two important improvements and modifications. These are (a) changing the weighting of the indicators and (b) introducing a two-step approach to general resource allocations. The paper addresses the issues raised by the auditors in their recommendations and changes will be implemented, based on the Executive Board's guidance at its third regular session of 1996.

Recommendation No. 8

19. UNICEF should undertake collaborative studies in selected programme sectors to determine the level of achievement of the decade goals, sustainability of programmes and national capacity-building.

Measures taken by UNICEF

20. The progress of country programmes towards the mid-decade and end-decade goals is being monitored and evaluated with support from headquarters and regional offices. To prepare for the Secretary General's report to the General Assembly on progress by mid-decade, information on all mid-decade and end-decade

goals has been collected and a report has been prepared which includes comments and contributions from other United Nations agencies.

21. UNICEF has developed a system of multiple indicator cluster surveys which are being used as a means of monitoring progress, building national capacity and evaluating the impact of goal-related efforts. A major evaluation of sustainability of programmes in relation to immunization has been undertaken.

22. Issues of national capacity-building and sustainability are recognized as important components of country programmes and are areas of critical concern in all sectoral and thematic evaluations. The newly constituted Office of Evaluation, Policies and Planning, together with the Programme Division, will specifically address these issues.

Recommendation No. 9

23. Instead of using the exchange rates available at specific periods of time as the basis for forecasting budgetary requirements, UNICEF should consider adopting an appropriate averaging method to obtain more accurate projections.

Measures taken by UNICEF

24. The methodology of calculating budgets is on the agenda of the United Nations Development Programme (UNDP)/United Nations Population Fund/UNICEF group on the harmonization of budgets. The recommendation of the Board of Auditors will be included in the joint proposal to be submitted to the Executive Board at its first regular session of 1997. Until the opinion of the Executive Board has been obtained, the secretariat will prepare the budget using the United Nations rates of exchange prevailing most proximate to the budget approval, as recommended by the Advisory Committee on Administrative and Budgetary Questions.

Recommendation No. 10

25. In the design of the integrated system, a clear link should be established between administrative costs and country programme costs to achieve proper balance in resource allocations.

Measures taken by UNICEF

26. Experience to date indicates that the integrated budget process supports and highlights the establishment of a closer link between the country programme and its administrative support structure. The secretariat will continuously look into possible refinements of the process, especially taking note of the constraints in establishing a standard ratio for global application when the integrated budget process is fully implemented.

Recommendation No. 11

27. Further measures should be taken to improve sales forecasting and to reduce over-ordering of products in order to keep unsold stocks to a minimum.

Measures taken by UNICEF

28. A consulting firm is currently undertaking a review of the UNICEF card and product sales business. The review will include a high-level overview of business processes for forecasting, production and logistics systems with

comparison to "best practices" in the industry. The output of the study will also include a summary gap analysis.

29. Further, in consideration of the critical concerns regarding inventory management, the secretariat proposed a Geneva-based post which reports directly to the Chief of Market Development. At its 1996 annual session, the Executive Board approved this post and recruitment will be undertaken when the new Director of the Greeting Card and related Operations (GCO) assumes his post in September 1996.

III. PROGRESS REPORT REGARDING SPECIFIC MEASURES TAKEN TO IMPLEMENT RECOMMENDATIONS OF THE BOARD OF AUDITORS ON THE UNICEF ACCOUNTS FOR THE BIENNIUM 1992-1993

30. After its last audit, the Board of Auditors indicated that follow-up action still needs to be undertaken on seven recommendations included in its report on the audit of the accounts for the biennium 1992-1993.

31. The Board of Auditors noted that its recommendation [9(h)] pertaining to the need for field offices to review all cash assistance to Governments and to submit proposals for write-off is being implemented. Also, see paragraph 6 above.

32. On the specific recommendation [9(i)] pertaining to the need to expedite the reporting by UNICEF headquarters of remittances received on behalf of GCO, the Board noted that there has been significant improvement and that the reporting of receivables is no longer delayed.

Recommendation No. 9(a)

33. The reporting procedures of the common premises project should be reviewed to ensure periodic apportionment of costs to participating organizations for disclosure in their accounts and to facilitate reimbursement to the primary funding organization.

Measures taken by UNICEF

34. In response to the external auditors' observation on the subject and in view of its own concern over the matter, the secretariat has continuously followed up with UNDP to resolve pending matters. While UNDP has not yet provided UNICEF with the necessary documentation to substantiate the billed amounts, it has engaged the services of an accounting firm to review the accounts and to submit a report thereon by end-July 1996.

35. The secretariat will review the report as soon as it is available and will take action as may be necessary.

Recommendation No. 9(b)

36. The administration may wish to re-examine the present policy on the utilization of the Emergency Programme Fund (EPF), given the limitations of the Central Emergency Revolving Fund, and make recommendations to the Executive Board on the effective use of EPF to strengthen the emergency readiness of UNICEF.

Measures taken by UNICEF

37. At its 1996 annual session, the Executive Board requested that the recommendations on the utilization of the emergency funds be presented at its first regular session of 1997. The work is in progress and will be finalized by October 1996.

38. In addition to the ongoing review of the utilization of emergency funds, the secretariat is undertaking the following activities: (a) additional training for the Rapid Response Team is scheduled for September 1996; (ii) ongoing negotiations for stand-by arrangements with selected donor Governments; and (c) preparation of policy papers on child protection, reunification and psycho-social trauma.

Recommendation No. 9(c)

39. The use of special service agreements (SSAs) as a conduit for the engagement of short-term personnel to perform regular staff functions should be discontinued.

Measures taken by UNICEF

40. The Division to which the recommendation pertains has exerted its best efforts to implement the auditors' recommendation. In the two cases when SSAs had to be issued for short-term personnel to perform regular staff functions, the Division had fully assessed the situation and had taken the only options available at that time.

Recommendation No. 9(d)

41. UNICEF special agreements with the recipients of procurement services should be reviewed to include penalties for reimbursements that are delayed beyond a maximum agreed period.

Measures taken by UNICEF

42. The significant problems with one major procurement services client from late 1994 to late 1995 were mainly due to the staffing problem on the part of the client. After a concerted effort in this area on the part of UNICEF, the remittance process is again working smoothly.

43. A request for interest due on the delinquent payments of 1995 was sent on 30 May 1996 and the first follow-up was made in mid-July. Subsequent follow-up will be made if necessary.

Recommendation No. 9(e)

44. To bring operating costs down, the proposed expenditures on salaries and allowances of the staff of the new company providing the workforce to the UNICEF Supply Division warehouse should be reviewed.

Measures taken by UNICEF

45. The number of manual workers has been reduced from 85 to 31 and further reductions at the supervisory level and of the administrative costs are under

negotiation. It is anticipated that the overall savings will be about $1.04 million annually. The absenteeism rate among the workforce has improved markedly and is now well below the national average and the flexibility of the workforce is greatly improved. It is expected that the savings will become more apparent in 1997.

Recommendation No. 9(f)

46. The clean-up of the staff personal accounts should be expedited to assure integrity of this account.

Measures taken by UNICEF

47. The individual statements have been issued for international Professional staff in the West Africa Region and for Supply Division as well as for the staff of some divisions in New York. The issuance of statements to all staff in New York will be completed by November 1996 and the issuance of statements to all international Professional staff in the offices in Europe, the Middle East and North Africa and Eastern and Southern Africa will be completed by December 1996.

48. The review of the large and/or negative balances noted by the external auditors will take place prior to the scheduled issuance of the statements.

Recommendation No. 9(g)

49. Competitiveness in the hiring of freight forwarders should be improved to ensure transparency and value for money in shipping activities.

Measures taken by UNICEF

50. To improve the transparency of the process, requests for proposals for freight forward services are now being invited. At the same time, a review of the possible reorganization of the Shipping Section to ensure improved service and to achieve value for money is underway. This review will consider a structure with a regional focus and the rationalization of freight forwarders in relation to the country of destination rather than to the country of origin of the goods.

IV. RECOMMENDATIONS THAT WOULD REQUIRE ACTION BY THE GENERAL ASSEMBLY

51. The administration does not see any recommendation of the Board of Auditors that would require action by the General Assembly.